

Summary
of the audit on the operation of the “Ministry of Finance”
Central Budget Chapter (0801)

This comprehensive audit was carried out by the State Audit Office of Hungary (SAO) on the “Ministry of Finance” central budget chapter and covered the period that lapsed since the last comprehensive audit on this chapter in 2003. From among the different tasks of the Ministry SAO devoted special attention to the reform-related activities, the IT systems and their development and the internal financial control of public finances. Furthermore, the audit also reviewed how the Ministry (as a “chapter-level” organization) exercised governance and supervision on its subordinate institutions.

When laying the foundations for the overall reform, which was publicly announced in 2006 on the public sector and major redistributive systems, the Ministry failed to analyze the reasons and conditions which, in terms of the balance of the budget led to deterioration, or posed a risk for the reform process. The Ministry developed the relevant motions on the legal status of public finance institutions, on public finances and property management. The adoption of these motions by the Parliament would basically change the operation of public finances.

The goal of the legislative motion on budgetary responsibility and Legislative Budget Office (LBO) is in alignment with the SAO’s official statements on public finance regulation. Actually, for a renewal of the public budgetary management practice in Hungary it is not enough to merely enforce the requirement of a more rule-driven budgetary policy (which includes more checks, controls and the ban to override initial budgetary decisions of the Parliament). To make the reform process complete it is necessary for example to restructure the overall resource regulation, to put an end to the efficiency problems arising from undifferentiated delegation of authorities and powers, to specify the content of the individual public services and tasks in details, to develop budget accounting rules (this latter task requires the adoption of specific legislations).

As imposed on it by a relevant government decree the Ministry implemented the task to prepare legislation on central government assets. Accordingly, the Act passed by the Parliament in 2007 stipulated that a new joint stock company should be set up to implement the tasks of a single asset management organization. This organization is expected to rectify the shortcomings prevailing in the management of central government assets.

Within the IT framework of public finances, the Hungarian State Treasury plays a primary role. To replace the old, outdated IT systems, which lacked standardization in terms of technology, data content and operation attributes, a work started in 2007 to set up a rather homogenous and up-to-date IT framework, with the new approach to centralize the IT development tasks. The so-called “Budget Management System” (BMS) is going to have a long-term

impact on the IT-framework of public finances. Its HUF 12 billion budget, which is intended to be funded from EU-resources and the planned distribution of the expenses between the individual tasks of this project are not substantiated by detailed background calculations and data. The Ministry failed to provide explanation on why the project is confined to the central budget area, and also failed to analyze the possibility that the left-out segments of public finances are joining in the future.

As regards the Ministry's traditional tasks on the budget of the Republic of Hungary (i.e. setting up the budget and the annual financial statements), no considerable progress towards transparency was reached in the audited period either. This further worsened the ability to track the use of public resources and to judge the extent of utilization.

The tasks connected with the development of the overall public internal financial control system could not be tackled by the Ministry in respect of the points. Though the Ministry in its annual reports to the Government pointed out to the qualitative and quantitative problems concerning human resources it took no actions to rectify them. The Ministry failed to re-think the public internal financial control with a system approach, adapt international experiences, make clear and regulate the relationship between public internal financial control systems and internal audit, integrate the financial audits carried out with the SAO's method into the internal audit and control systems. The financial audits on the financial statements of institutions lacking the authorities of a "chapter-level organization" were carried out by the Ministry's internal audit organization with the SAO's method, but not for the full relevant area and without alignment to the SAO's deadline for the annual audit on the execution of the country's budget.

Delegating the IT governance functions in 2006 to the Ministry's IT Service Center did not prove to be a good solution because the division of powers and resources between the concerned institutions under the Ministry was not settled unambiguously. The Ministry did not provide the requisites (amendments to the legal basis, exact definition of duties, responsibilities and powers, the planned regrouping of staff) necessary for reaching the strategic goals pursued by the establishment of the IT Service Center.

The cooperation between the National Customs Authority and the national tax authority ("APEH" - "Hungarian Tax and Financial Control Administration") on an efficient collection of customs and tax receipts is still hampered by having failed to standardize the data exchange as regards the structure and format of computer files and the data transmission technology.

The fundamental goals pursued by reorganizing the regional structures of the National Tax Authority and the Hungarian State Treasury were achieved despite the Ministry not having provided prior guidance on issues of efficiency, implementation and operation. Simultaneously with this reorganization, the Gambling Supervision Authority and the so-called "fee collection offices" were

integrated into the organization of the tax authority. At the integration of the fee collection offices, difficulties emerged in respect of taking over and running the IT systems, and aligning the offices' practice of assessing and keeping records on the fees to the "tax regime" in place at the tax authority. Due to the integration the tax payment data and fee payment data became more comparable with each other; an advantage for the audit tasks of the integrated organization and its special examinations on "increase in assets". Through having introduced standard operations and a single practice for the application of law, efficiency in operation and collection is increasing.

Heads of the institutions subordinate to the Ministry made use of the recommendations of previous SAO-audits that is, the Heads took actions for the implementation of such recommendations. However, the previous SAO recommendations to the Government and the Minister of Finance - on the need to improve professional soundness in budgeting, develop internal financial control and audit of public finances, review the appropriation leftovers by deadline - were not, or were only partly implemented.

Based on the findings of the present audit, the SAO recommended the Minister of Finance to develop the necessary feasibility studies when drafting relevant legislative motions on public finances and explore with a system approach the reasons for the emergence of appropriation residues. As regards the "Budget Management System" Project it was recommended to assess the material risk factors and substantiate the project budget with more detailed background calculations. The SAO finds it necessary that the prerequisites for a more efficient performance of the "chapter-level" (ministry-level) IT governance and supervision functions be in place at the Ministry of Finance. Furthermore, the systems supporting the data exchange between the customs authority and the tax authority should be modernized.

For the audits to be more efficient, the SAO recommended that the Minister of Finance should review the existing regulation of the overall public internal financial control system with the aim to adapt international experiences, make clear the relationship between internal audit and the individual internal financial control systems and integrate the financial audits carried out with the SAO's method. Another recommended task for the Minister of Finance is to ensure that the Ministry's financial audits fully cover the institutions under its supervision.